

FISCAL NOTE

Bill #: HB0200

Title: Tax credits for health insurance

Primary Sponsor: Wanzenried, D

Status: As Introduced - Revised

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
State Special Revenue	\$6,000,000	\$11,500,000
Revenue:		
State Special Revenue	\$0	\$0
Net Impact on General Fund Balance:	\$0	\$0

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. This bill appropriates up to \$15 million per year to the State Auditor's Office (SAO) from the "Health and Medicaid Initiatives" state special revenue account established by Initiative 149 for a program to provide refundable income, corporation, or insurance tax credits for small employers that provide health insurance for their employees. The funds are to be used to reimburse the general fund for revenue lost due to the tax credits, to pay the credit amounts directly to small employers that have not offered health insurance in the last two years, and to pay the SAO's costs of administering the program.
2. Revenue from cigarette and tobacco taxes deposited in the health and Medicaid Initiatives state special revenue account and available for this program is expected to be \$6.0 million in FY 2006 and \$11.5 million in FY 2007. The SAO expects administrative costs of \$247,305 in FY 2006 and \$241,437 in FY 2007. This leaves \$5,752,695 available for tax credits in FY 2006 and \$11,258,563 for credits in FY 2007.

Department of Revenue

3. This bill provides tax credits to "eligible small employers" for health insurance premiums paid under a group health plan for the benefit of "eligible employees".
4. Eligible small employers may receive the credit in one of two ways: First, eligible small employers may apply the credit against individual income or corporation license taxes due for the current tax year. If the credit amount exceeds the employer's tax liability the excess must be refunded to the employer

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(refundable credit). As provided for in the bill, the amount of any excess credit refunded is not taxable income to the employer. Also, premium payments for which a credit is claimed may not be deducted for income tax purposes.

5. Second, if eligible under the rules specified in Section 3, the employer may request the State Auditor to make direct monthly payments to the eligible small employer to be applied to premiums paid by that employer.
6. The bill applies to tax years beginning after December 31, 2005 (TY 2006).
7. This bill impacts administrative responsibilities of the Department of Revenue. The State Auditor will provide the department with a list of employers receiving the tax credit and whether the credit is to be applied against their tax liabilities. The department will have to verify the credit amounts authorized against those claimed for compliance purposes, and will have to audit returns of pass-through entities to verify compliance with the allocation of credits among individual taxpayers of those entities. This will require the addition of 0.25 FTE (grade 10) in FY 2007.
8. Section 12 of this bill appropriates to the Department of Revenue an amount equal to 0.15 percent of the revenue deposited in the account for the current fiscal year not to exceed \$15,865 for FY 2007 for administration of the tax credit program.

State Auditor's Office (SAO)

9. The advanceable and refundable tax credits for small businesses will assist up to 10,000 Montanans per year.
10. Each employer that proposes to claim credits under the provisions of this bill must be registered with the SAO. This registration must include the number of claimed tax credits.
11. The amount of the small group tax credit that may be claimed may not exceed \$100 per month for individuals in groups with an average age of 19 of age to the age of 45; \$125 per month for individuals in groups with an average age of 45 years of age or older; and \$40 per month for each dependent of the primary insured individual, not to exceed two dependents. The program caps available tax credits plus SAO expenditures at \$15 million per year.
12. The SAO will need 2.00 FTE to implement this program. These FTE would consist of a grade 15 financial specialist and a grade 12 financial specialist. Operating costs to implement this program will be \$181,468 in FY 2006 and \$172,600 in FY 2007.
13. Section 12 of this bill appropriates to the SAO an amount equal to 1.65 percent of the revenue deposited in the account for the current fiscal year not to exceed \$247,305 for FY 2006 and \$241,437 for FY 2007 for the eligibility, enrollment, outreach, and administration for the tax credit program.

FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
Department of Revenue		
FTE	0	0.25
<u>Expenditures:</u>		
Personal Services	\$0	\$5,791
Operating Expenses	0	1,958
Equipment	0	<u>\$5,800</u>
TOTAL	\$0	\$13,549
<u>Funding of Expenditures:</u>		
State Special Revenue (02)	\$0	\$13,549

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State Auditor's Office

FTE	2.00	2.00
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Expenditures:

Personal Services	\$65,837	\$68,837
Operating Expenses	\$181,468	\$172,600
Tax Credit Reimbursement	<u>\$5,752,695</u>	<u>\$11,245,014</u>
TOTAL	<u>\$6,000,000</u>	<u>\$11,486,451</u>

Funding of Expenditures:

State Special Revenue (02)	\$6,000,000	\$11,486,451
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

State Special Revenue (02)	(\$6,000,000)	(\$11,500,000)
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LONG-RANGE IMPACTS:

This bill appropriates funds only for two years.